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THE WHITE HOUSE

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May 2, 1968

MEMORANDUM FOR MR. W. W. ROSTOW

SUBJECT: Czechoslovak Trade with the West

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BY: 12054, Rec. 20

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Two or three weeks ago you asked me in staff meeting why it is that Czechoslovakia wants to reorient its trade to the West, and why trade with the West is economically so much better for the Czechs.

The attached CIA memo throws some light on this question.

I would offer the following reasons:

1. Western trade enables the Czechs to modernize their plant, and they can then buy advanced machine goods with the hard currency they earn. Trade with the Soviets perpetuates their inefficiency.
2. Earning hard currency makes them less subject to political pressure -- and reduces their economic dependence. They can then buy anywhere in the world. At present, 70% of Czech trade is with the Communist Bloc -- and about half of this is with the Soviet Union.
3. The Czechs already have almost a half-million dollar export surplus with the USSR -- which amounts to a frozen asset, as the Soviets don't have the things they really want to buy (e.g. computers, petro-chemicals, synthetics and other advanced technology for which the Soviets are also standing in line). The Soviets are net importers of machinery from Eastern Europe.
4. The Soviets use their political leverage to get advantageous prices. Moreover, in the CEMA system, the agreed prices for raw materials which the Soviets export to Czechoslovakia were pegged to world market prices when the CEMA agreements were made several years ago. Since then, most of these prices have been falling on the world market -- and Soviet raw materials sold to the Czechs are now over-priced.
5. The Czechs' historic trading ties are with the West. Their economic orientation to the Communist Bloc was artificially imposed. The Czechs know and like German and other Western products.

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6. The Czechs want, through trade, to attract Western capital -- to help them in the industrial modernization program they so desperately need.

7. The Czechs are finding their export of machinery and machine tools to the Soviet Union less and less profitable. The Soviets want modern Western stuff, and the Czechs have had to accept sharp reductions of price in order to continue selling their somewhat outmoded machinery.

8. There is a human factor. Trading in the West means travelling to the West -- and the Czechoslovak industrial and economic officials want that very much. There is also an element of the grass being greener in the West, and the fruits there being attractive because so long forbidden.

9. This is slightly circular reasoning, but the market economy people like Šik argue that Czechoslovakia must have internal liberalization in order to be able to compete in Western markets. These people have a stake in liberalization, for its own sake, and tend to magnify the benefits of Western trade in order to support their argumentation.

(There are also arguments on the other side. For example, bilateral trading agreements within the Bloc have traditionally been easier than hustling in the highly competitive Western market. Intra-Bloc trading is easier, particularly if one lacks convertible currency -- which the Czechs do. We should also remember that the Czechs have in past years been able to unload obsolescent and shoddy manufactured goods on the Soviets.)


Nathaniel Davis

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